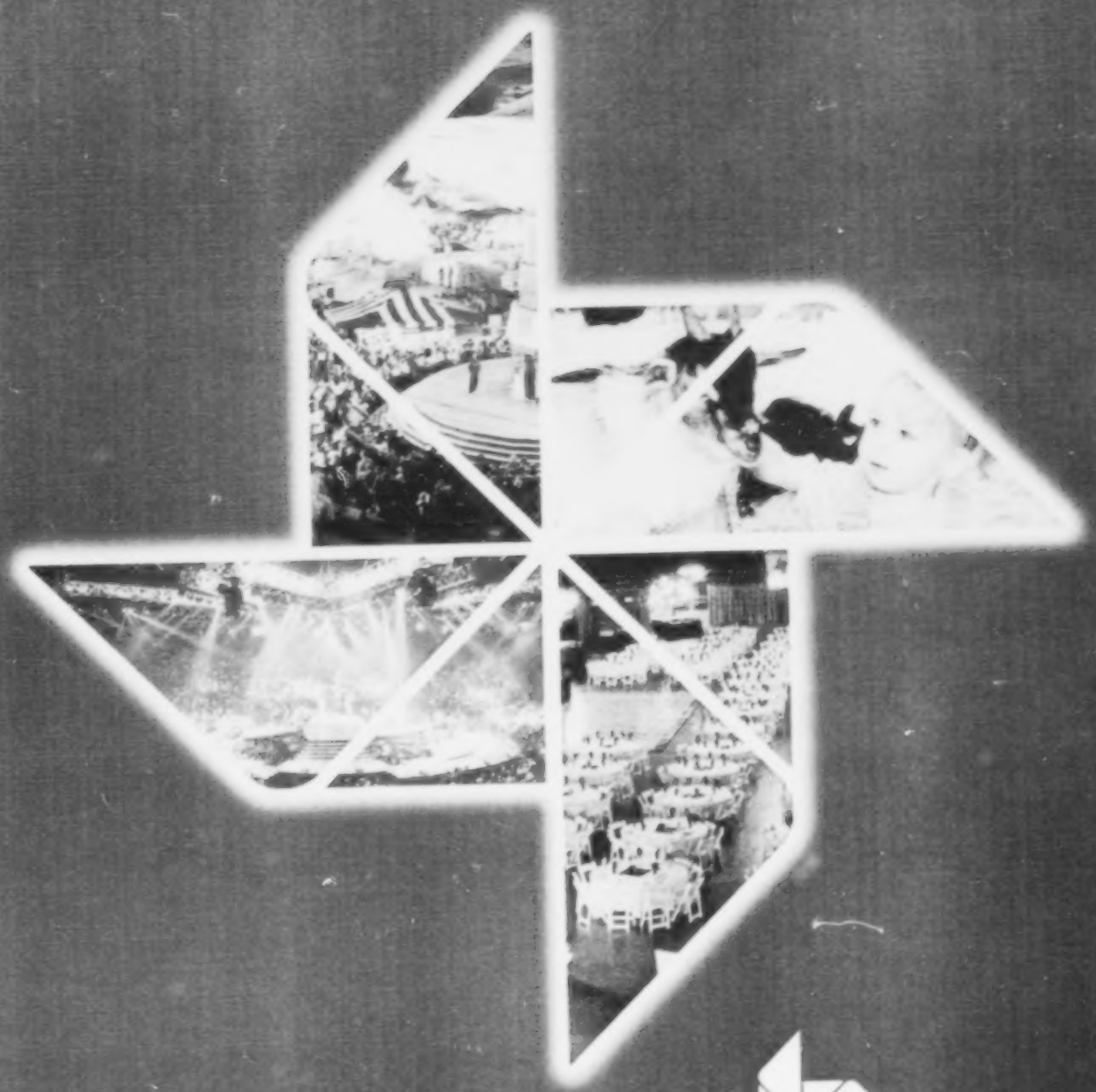

PNE

# PACIFIC NATIONAL EXHIBITION

## Annual Report 2003

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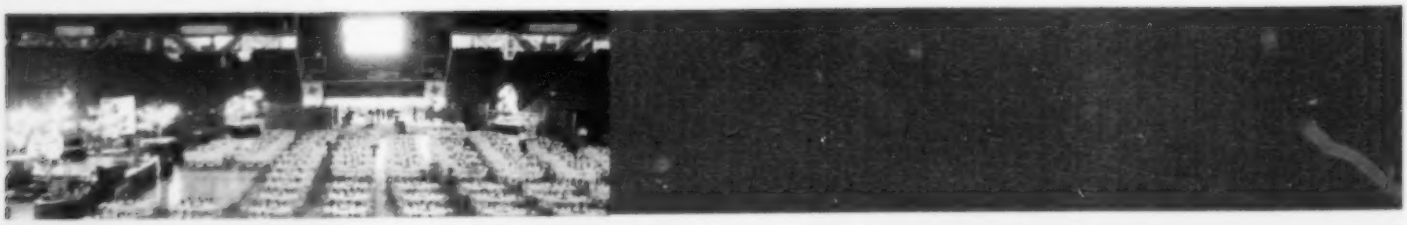


# I. OVERVIEW OF THE PACIFIC NATIONAL EXHIBITION

The Pacific National Exhibition (PNE) has a long tradition in the City of Vancouver. It was established in 1910 to showcase the best of British Columbia's agricultural and cultural activities to the world. In 1973 it was incorporated by the province of British Columbia under the *Pacific National Exhibition Incorporation Act* for the purpose of furthering the province's agricultural industries and promoting community development. Currently owned by the Province of British Columbia (with a transfer of ownership to the City of Vancouver as of January 1, 2004), the Pacific National Exhibition is a vibrant and dynamic organization dedicated to providing over 3 million visitors a year with first-class cultural, sporting and family events and entertainment.

The PNE has grown to become the premier entertainment destination of BC and the Pacific Northwest. The organization operates from a 114-acre site at Hastings Park, a multi-facility venue in Vancouver that allows us to build partnerships with both regional and international businesses and community groups. We do this through our three activity streams: an annual 17-day Fair, Playland Amusement Park and our year-round facilities which are utilized to celebrate a variety of community, social, cultural, ethnic and commercial events throughout the year.

## A. PNE MISSION

The mission of the PNE is to enrich the quality of life at Hastings Park by providing family entertainment that invites our guests to celebrate Vancouver's heritage, culture and diverse communities in a vibrant urban park.

To accomplish this strategic mission, the PNE is driven by its vision to:

- Continue to offer British Columbians year-round facility rentals, a seasonal amusement park and the annual summer Fair.
- Embrace our tradition of providing dazzling, family entertainment and fun-filled memories, and in doing so, set the standard for family entertainment in British Columbia.
- Remain Vancouver's Place to Celebrate by being the hub of social and cultural activities in Vancouver through the development of a long-term relationship with the City of Vancouver.

The Pacific National Exhibition is driven by an underlying set of values and ethics that impacts every aspect of its work and commitment to employees and the guests we serve:

1. Guest service and satisfaction are the reasons we are in business.
2. We provide the best entertainment value for our guests in a clean, safe, and fun environment.
3. We build on our history and tradition while creating our future.
4. We treat all individuals with honesty, fairness, dignity, and respect.
5. We are flexible, innovative, creative, and proactive.
6. We are committed to the growth and profitability of the organization.
7. We work together and support each other to achieve corporate and individual potential.
8. We are results-driven, externally focused, and continuously improving.
9. We act as a socially and environmentally responsible corporate citizen.

## B. PNE ACTIVITY STREAMS

The Pacific National Exhibition works to meet its strategic mission through the operation of three activity streams: Playland Amusement Park, its famous annual 17-day Fair, and year-round rental of facilities to a number of clients for community, social, ethnic, and commercial events.

Through its operations on this site, the PNE makes the following contributions:

1. A venue that in 2003 hosted over 175 events, including community, religious and ethnic events, trade and consumer shows, concerts, meetings, rallies, banquets, film and commercial shoots, agricultural shows and a wide variety of both amateur and professional sporting events. In total, the PNE hosted 1629 event days and approximately 3 million visitors at various events on the Hastings Park site throughout 2003.
2. Over $139 million in direct and indirect economic spin-offs annually to the surrounding community. This includes 3,495 jobs, 90 % of which are located in the Vancouver Census Metropolitan Area, many of them providing much-needed summer employment for youths. The PNE is the largest employer of youth in BC.
3. Fifteen acres dedicated to Playland and its 31 rides, entertainment, and special events which provide a safe and secure venue for youth and families to have fun. Playland also proudly serves as an educational venue through its "Science of Physics" days and a place where underprivileged youth can enjoy life's pleasures through its support of events such as the Orphan's Fund Picnic.
4. An affordable and safe environment for family entertainment and a place for Vancouver to celebrate year round.
5. An annual contribution of $2.7 million towards the City of Vancouver's Hastings Park site and building maintenance costs.

The PNE's principle clientele continues to focus on youth and families in the Greater Vancouver area, but its client base extends beyond this area. The PNE is a unique facility in that it hosts events that appeal to all demographics including children, teens, adults and multicultural communities. Apart from visitors to Playland and the annual Fair, the PNE also serves a national and international clientele in community and cultural events, concert production, sports, consumer shows and film.

# II. MESSAGE FROM THE PRESIDENT & CHIEF EXECUTIVE OFFICER

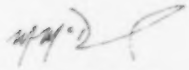
This year marked the 94th year of the Pacific National Exhibition's operation with a commitment to enriching the quality of life at Hastings Park by providing family entertainment that invites our guests to celebrate Vancouver's heritage, culture and diverse communities in a vibrant urban park. The importance of the PNE within Vancouver and the greater community of the Lower Mainland and British Columbia continues to be reaffirmed through high attendance at this year's annual Fair at the PNE, Playland and hundreds of on-site events. The PNE's relevance within the business community has also been highlighted this year through the demand for the organization to provide facility rentals to over two hundred different events, ranging from trade and consumer shows, community, cultural and religious events, concerts and film shoots to the Vancouver Giants hockey season.

In keeping with our 2001 business plan, the organization has been focusing on reducing the overall deficit and ensuring that profitability and cost efficiency are key aspects of all activity streams. In 2003, the organization achieved a net profit of $2,406,362, (see note #9 to the financial statements as to why net revenues are stated at $2,406,362 instead of $3,069,674) which was our best year in recent history. This represents a continuation of the trend the organization has shown towards steadily improving its financial situation since 2000. It is significant to note that the PNE does not receive an annual operating subsidy from government and this year was no exception. We are proud to say we are continuing to operate self-sufficiently – one of the few like organizations in North America that can make that claim. Strong financial progress was made despite the shadow of uncertainty hanging over the organization regarding its ownership, tenure and location.

After the 2001 Provincial Core Services Review of the PNE, we were instructed to explore a transfer of the organization's ownership from the Province of British Columbia to the City of Vancouver. This transfer was successful, and December 31, 2003 marks the last day of Provincial ownership of the organization. Effective January 1, 2004, the Pacific National Exhibition will be owned by the City of Vancouver. Despite the uncertainty which evolved during this transfer of ownership, the Exhibition continues to provide substantial economic benefits to both the City of Vancouver and the Lower Mainland. As in previous years, the PNE contributed $2.7 million to the maintenance of the Hastings Park site and buildings. In 2002, the PNE's annual economic impact was independently assessed at over $139 million to the Greater Vancouver area.

With the 100th anniversary of the organization approaching, we remain committed to evolving so we can best serve our guests and clients throughout the immediate and greater communities. We continue to build the PNE's strength and believe we can create a lasting relationship with the City of Vancouver that will be mutually advantageous. The PNE's new business-minded and community-minded philosophy will continue to make this a viable organization that benefits Greater Vancouver as well as British Columbia, both economically and culturally.

We are enthusiastic about the organization's future with the City of Vancouver and believe that the Organization's viability will increase once a long-term future for the PNE is determined. Overall, 2003 was a extremely successful year for the PNE, and I would like to take this opportunity to thank all of the dedicated and hard working staff that have pulled together year after year to make this great organization successful. I would also like to thank the 2003 Board of Directors for their many hours of service and dedication to the future of the PNE. We look forward to continuing our long history as "Vancouver's Place to Celebrate".



**Michael McDaniel**
A/ President and Chief Executive Officer
Pacific National Exhibition

# III. YEAR IN REVIEW

The Pacific National Exhibition is a non-profit registered charity, owned by the Provincial Government of British Columbia and it generates revenues from three activity streams: Playland Amusement Park, the annual 17-day Fair at the PNE, and year-round rentals of its buildings and facilities. In 2003, these activity streams attracted over three million visitors to the facilities and events hosted by the PNE. The organization's combined economic impact on surrounding communities was independently estimated at $139 million in 2002.

## A. FINANCIAL REVIEW

2003 was the most financially successful year in recent history for the PNE. These results continue the organization's strong trend of improving financial stability as seen over the past four years. The PNE realized a net profit in 2003 of $2,406,362, $515,002 in 2002, and $56,465 in 2001 (see Figure 3.1). Through management's orientation toward efficiency and cost control, continued increased profitability was achieved despite the significant summer forest fires which affected Fair attendance as well as revenues and an annual 2% wage increase for PNE union employees. In addition, management's commitment to cost control resulted in operating expenses as a percentage of operating revenues being 91.4% in 2003. This is in comparison to 93.55% in 2002 and 94.67% in 2001. The continued improvement in the PNE's profitability is part of management's plan to eliminate its accumulated operational deficit over the next three years.

**Figure3.1**
**Pacific National Exhibition Net Revenues, 1999-200**

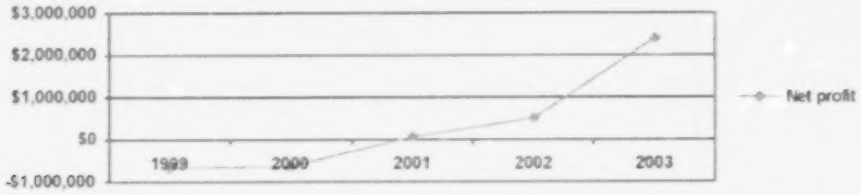
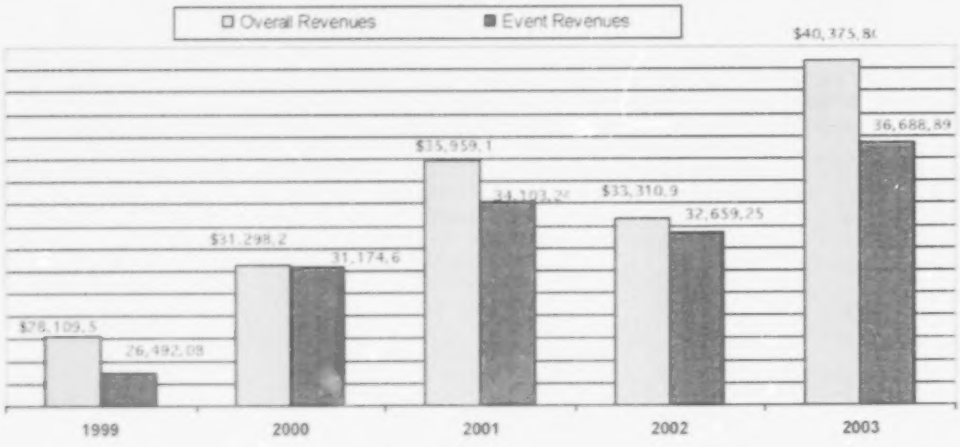
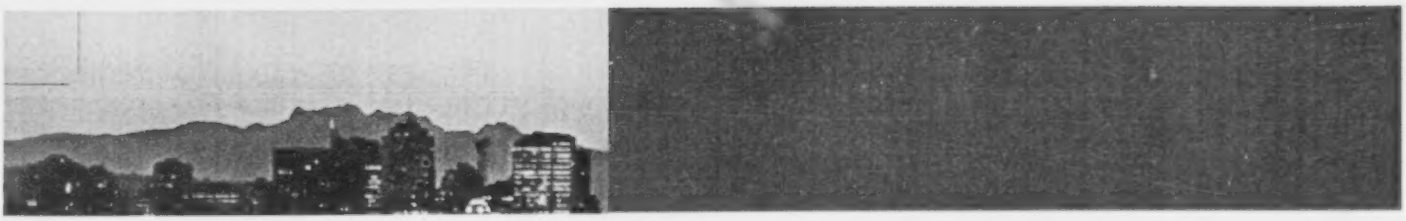



**Figure3.2**
**Pacific National Exhibition Gross Revenues, 1999-2003**





## B. EVENTS REVIEW

The Pacific National Exhibition is committed to providing quality family entertainment that meets the needs of the diverse communities we serve. With something for all ages and demographics, the PNE continues to provide programming opportunities that build on its reputation as being 'Vancouver's Place to Celebrate'. This section summarizes the 2003 entertainment provided through each of the organization's three activity streams. A more detailed discussion of their financial performances can be found in Section IV, Financial Results.

## PLAYLAND AMUSEMENT PARK

Playland was open for 90 days between April 18 and September 28 in 2003. Total attendance for the 2003 regular park season was 278,948 visitors, down by 1 % from 2002. This is a venue that continues to appeal to its core demographic of 9-18 year-olds, while also showing increased growth in the family market. Revenues from Playland amounted to $6.65 million in 2003 and offered over thirty rides and attractions during its Park Season (see figure 3.4). During the 2003 Fair, it offered an additional seven rides over and above its normal selection of rides, food vendors, and midway games.

Areas of growth contributing to the success of Playland in 2003 include the following:

- Season's Passes continued to grow with 5139 passes sold, a 5 % increase from 2002.
- Junior Season's Passes accounted for 551 passes sold in 2003, a 27% increase from 2002.
- 49,440 Supervising Adult Passports were sold in 2003, a 6 % increase from 2002. This shows a growth in the family market for Playland, a park that has traditionally relied on driving attendance primarily within the youth market.
- New to Playland this year was the introduction of Fright Nights. The park season was expanded to stay open primarily on weekends from October 10 to November 1, 2003 for a seasonal Halloween celebration showcasing several new haunted house attractions. Attendance for Fright Nights in 2003 was 43,741 visitors which was higher than projected. The event was deemed a success and will be continued in 2004.

**Figure 3.4**
**Playland Rides**

* New in 2003

| ADULT RIDES | | |
|---|---|---|
| Climbing Wall | Music Express | Flying Elephants |
| Tilt a Wirl | Wild Mouse | Kiddie Swing |
| Wild Wasserbahn | Ferris Wheel | Paddle Wheelers |
| Hellevator | Wave Swinger | Glass House |
| The Revelation | Rainbow | Dune Buggies |
| Hell's Gate | Scrambler | Helicopters |
| Wooden Roller Coaster | Pirate | Dragon Coaster |
| Scooter | Giant Octopus | Raiders |
| Drop Zone | Enterprise | Merry -Go-Round |
| Corkscrew | CHILDREN'S RIDES | Scrambler |
| | Stunt Cycle | Grand Prix |

**An additional seven rides (four adult plus three children's rides) were brought in for the 2003 Fair.**

## THE FAIR AT THE PNE

The Pacific National Exhibition's annual 17-day Fair was held from August 16 to September 1, 2003. It is one of the largest and best-attended tourist events in B.C., attracting 901,474 visitors this year. Based on attendance, the Fair at the PNE is the second largest in Canada, and the fourteenth largest in North America. Over 63 million guests have attended it since it first began.

In 2003, the Fair generated $21.5 million in gross revenues for the PNE this year. Throughout the Fair, the PNE hosted a range of family-oriented entertainment from Vancouver, B.C. and throughout Canada, with a focus on providing free or affordable shows to its guests. The PNE also continued the Fair's long standing tradition of highlighting B.C.'s rich agricultural roots through the 4-H Festival and Farm Country shows. The 2003 highlights included:

## 2003 PNE ENTERTAINMENT HIGHLIGHTS

* = new in 2003

### Bring on the Night*
A rock guitar player's fantasy featuring a 360 degree immersive show experience with wild guitars and classic rock hits.

### Equestriana*
An equestrian theatrical experience featuring a story about a young girl and her discovery of the world of horses.

### Kid Power*
A vast array of daily shows for families and those with young children featuring 30 minute performances by Sponge Bob, Blues Clues, Dora the Explorer and more.

### Festival Square*
Celebrating Vancouver's multicultural communities and featuring over 70 diverse performance groups from local and national reaches.

### Zydeco Jam
A Mardi Gras-style musical procession and live stage show.

### Cirque Pop!
A circus act that was the hit of the 2001/2002 Fairs featuring live Cirque acts, dynamic dancers and a live band.

### Monster Motor Madness
A motorsport event featuring motorbike jumps and monster trucks.

### Eukanuba Superdogs
The 25th year of performances at the PNE by this troupe of entertaining canine athletes.

### Dal Richards and his Orchestra
Dal Richards, a renowned big band leader, continues to draw crowds of all ages to hear his legendary performances. Dal Richards has been thrilling audiences at the PNE since he was in his teens.

### Shaw Star Discovery Talent Search
A nightly search for youth, adult, and senior performing talents from throughout BC. Youth winners go on to compete in a national talent contest.

### Telus Mobility Band Stand
Nightly concerts and a wide range of performances from Elvis, Nearly Neil, ABBAmania, the Beegees and other great tribute artists.

### Prize Home Lottery
An annual tradition dating back to 1934 where the grand prize winner of this draw receives a newly-built and designed home and grand prize package including furniture, electronics, Harley Davidson motor cycle, speed boat and 13 other prize vehicles.

### 4-H Festival
The largest 4-H competition in British Columbia continues to be held annually at the Fair at the PNE with over 600 participants in 2003.

### Farm Country Pavilion
A tribute to the diversity of agriculture in British Columbia with live animals, a petting farm, and exhibits from local producers.

Areas of growth for the Fair at the PNE in 2003 included higher paid attendance levels and significantly higher per capita spending on site even though limited parking availability and massive forest fires elsewhere in BC contributed to decreased attendance in 2003.

## FACILITY SALES

In addition to the annual 17-day fair and Playland activity streams, the PNE also rents out its facilities throughout the year to a number of community organizations as well as event producers.

These facilities include the five buildings that the organization manages on the Hastings Park site: the Pacific Coliseum, Rollerland, the Garden Auditorium, the Forum, and the Agrodome. Together, the venues add up to 267,644 square feet of available space, making the PNE BC's largest venue for community and cultural events, trade fairs and conventions, concerts and film shoots. The PNE facility space accounts for one fifth of Vancouver's entire convention space availability.

In 2003, facility rental revenues were up 32% compared to 2002, amounting to $7.7 million dollars. The organization continued to aggressively market its facilities, and while they are apt to be impacted by market fluctuations in the film and concert business in Vancouver, the PNE experienced growth in the following areas of facility sales in 2003:

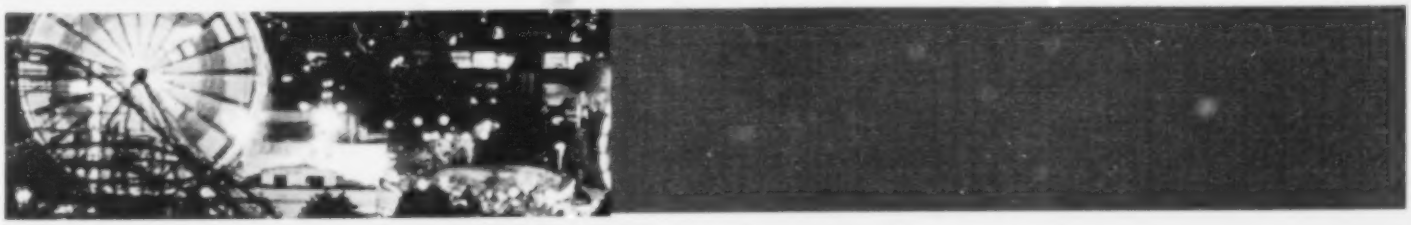
- Film activity increased to 1088 days in 2003 from 810 days in 2002
- Concert activity accounted for an increase of 18% in the number of concerts in 2003

Highlights of the 2003 facility sales portfolio include:

- Seven trade shows, including the three-day Lordco Auto Parts show
- 13 concerts, including Shania Twain
- Religious and community events representing a wide variety of ethnic and religious groups such as Cirkids, Canada Day at Hastings Park, Islamic Prayers, Ismaili functions and Indo Canadian concerts
- Sporting events such as the Vancouver Giants Junior Hockey season (thirty-six home games plus two playoff games), the AAA B.C. Boys High School Basketball Championship tournament, Slam City Jam Extreme Sport show, Oldtimers Hockey, WWE and KickBoxing

## C. ORGANIZATIONAL REVIEW

There were several changes to the organizational structure in 2003. On September 2, 2003 President and CEO Annette Antoniak resigned from the Pacific National Exhibition and Michael McDaniel, VP Human Resources was appointed Acting President and CEO on September 3, 2003. Ms. Stacy Shields, Director of Human Resources, took over the senior responsibility for Human Resources while Michael McDaniel took over his new duties in the Office of the President. Also upon Ms. Antoniak's departure, Ms. Donna Whalley was appointed Vice President of Marketing. At the close of 2003, there were 17 full time Managers, 10 Directors and 4 Vice Presidents. The Executive Management Committee was comprised of the President & CEO, Executive Assistant, Vice President Operations, Vice President Finance and Administration, Vice President Sales, Vice President Marketing and Director Human Resources.



# IV. FINANCIAL REPORT

## A. MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL STATUS

2003 was a strong financial year for the PNE despite ongoing uncertainty about the organization's future ownership and location. Despite these challenges, management persisted with reducing the organization's deficit while the PNE continued to improve its position and demonstrate strength and growing profitability in all three activity streams.

Throughout 2003, PNE management has maintained its organization-wide commitment to cost containment through budgeting processes that focus on:

1. Cost control
2. A "bottom up" budget to ensure commitment across the organization
3. Strengthened accountability systems to achieve budgeted results
4. Assessment of future capital asset investments based on quick payback business cases

As can be seen by figure 3.1 (page 5), this commitment is working and 2003 marked the 3rd consecutive year with a positive and growing net operating surplus. The organization's financial position continues to gain strength and the PNE is pleased to report a net profit of $2,406,362 in 2003, up from $515,002 for 2002, $56,465 in 2001, and a loss of $622,995 in 2000.

Management continues to be dedicated to reducing expenses and being creative in cost-cutting solutions. Significant efforts to note in 2003 include reduced operating costs as a percentage of operating revenues and continued reduction of accumulated deficit through reduction of amortization and operating costs.

### LOCATION UNCERTAINTIES

There are a number of outstanding uncertainties around the PNE's future operations that continue to impact the organization. The PNE's long-term lease with the City of Vancouver for the Hastings Park site ended in 1994, and since then, it has been granted a number of short-term lease extensions. In 2002, Vancouver City Council approved an extension of the PNE's use of Hastings Park until December 31, 2003.

During the 2001 Core Services Review, the PNE was directed by the Province of British Columbia to explore a transfer of ownership to the City. During 2003, the two parties negotiated this transfer and effective January 01, 2004, ownership of the PNE will move from the Province of British Columbia to the City of Vancouver. At that time, the City of Vancouver will explore options related to the future of the PNE and the organization's tenure on the Hastings Park site.

### ECONOMIC IMPACT

Despite this uncertainty, the PNE continued to contribute $2.7 million in 2003 towards the maintenance of the site and buildings at Hastings Park. The 2002 Pannell Kerr Forster economic impact study reported a $139 million economic impact with the majority of those economic spin-offs being generated in the Vancouver Census Market Area. In addition, PNE operations are reported to generate over $3.8 million in tax revenue to provincial, federal and municipal governments annually. The PNE continues to be a significant employer in the Lower Mainland with 3,495 jobs in 2003, 90 % of which are located in the Vancouver Census Metropolitan Area. The PNE is also the largest employer of youth in British Columbia and continues to focus on providing transferable job skills in areas such as customer service, communications, hospitality, finance, warehousing, security, agriculture, and entertainment. The PNE proudly continues to operate with no annual operating subsidy from government.

The Pacific National Exhibition's revenue is derived from three different activity streams: Playland Amusement Park, the annual Fair at the PNE, and year-round facility sales. The following will review the 2003 performance of each activity stream.

## PLAYLAND AMUSEMENT PARK

Playland became a division of the Pacific National Exhibition in 1993. Starting out as Happyland in 1926, there has been a permanent amusement park operating at Hastings Park for over 75 years. Playland has been operating at its current 15-acre location since 1958, and currently consists of 31 rides including 11 rides for children in Kids Playce, a zone for 3 to 10 year olds. It is recognized as one of the premier entertainment destinations in the Lower Mainland and is a summer tradition for many youth and families.

Playland had a highly successful 2003 season. The amusement park was open from April 18 to September 28 and received 278,948 visitors throughout the season. Visitors paid a $22.95 daily admission fee which provided gate admission as well as unlimited access to most rides in the park. The two "extreme" rides, games and food vendors were additional costs. Guests were eligible to receive a $3.00 discount on admission if their pass was purchased through the PNE's retail partner, Safeway Canada. Season's passes were also available both on site and at the PNE season's pass retail partner, A&B Sound.

Playland attendance was 1% lower than in 2002, attributed to the fact that the Park had no new attractions in 2003 but this shortfall was eliminated with the introduction of Fright Nights, a park season extension from October 10 to November 1, which generated an additional 43,741 visitors exceeding attendance projections for the event. The success of Fright Nights can be attributed to creative programming, strong promotions and a strong concept that was well targeted at the youth and adult demographic at a time when there are few other entertainment options.

Gross revenues for Playland were $6.65 million in 2003, up from $6.63 million in 2002 and $6.40 million in 2001. The 2003 revenues were ahead of budget by 17%. Corresponding net revenues for Playland were $3.9 million in 2003, up from $3.5 million in 2002 and $3.7 million in 2001.

Playland continues to be a favourite with the youth demographic and has growing appeal for the broader family market. One of the fastest growing segments of Playland visitors are families with younger children.

## FAIR AT THE PNE

The Fair is a 17-day summer tradition consisting of shows, exhibits and demonstrations, rides, games, food and a vast array of family entertainment. Visitors to the 2003 Fair paid a $10 general admission fee for access to the Fair's many exhibits and live entertainment performances. The 2003 Fair included some traditional favourites, such as big band leader Dal Richards and his Orchestra, but also introduced a variety of new entertainment intended to appeal to the Fair's core family demographic. These shows included the award winning Bring on the Night, Equestriana, KidPower and the multicultural and community stage, Festival Square.

Gross revenues for the Fair were $21.6 million in 2003, up from $20.1 million in 2002 and $20.2 million in 2001. The 2003 revenues were behind budget by 2.7%. Corresponding net revenues for the Fair were $8.2 million in 2003, up from $7.7 million in 2002 and $7.2 million in 2001. Attendance at the 2003 Fair was 901,474 visitors, down slightly from 2002 and behind budget projections by 73,526. Factors affecting lower than projected 2003 Fair revenues and attendance were the massive BC forest fires and limited parking access on site.

As part of the annual Fair, the PNE holds a lottery that helps provide general revenue for the PNE, as well as support non-revenue producing attractions such as agricultural events and free family entertainment shows. The grand prize includes a newly built and designed home, along with furniture, property and sport boat. In 2003, the Fair also gave away 14 vehicles as secondary lottery prizes. All prizes are provided through corporate sponsorships.

In 2003, the Prize Home Lottery drew over 172,000 entries, amounting to revenues of $4,308,675 million. This figure represents a 1.17% increase from 2002 lottery revenue.

## FACILITY SALES

Facility Sales is a year-round activity stream generating revenues through the rental of the site and buildings such as the Pacific Coliseum, Rollerland, the Garden Auditorium, the Forum, and the Agrodome. PNE facilities are rented to a variety of community and commercial clients for community, religious and ethnic events, trade and consumer shows, concerts, meetings, rallies, banquets, film and commercial shoots, agricultural shows and a wide variety of both amateur and professional sporting events.

Overall, in 2003, the PNE hosted 1629 event days, compared to 1070 in 2002 and 1,800 in 2001. Facility sales are influenced by fluctuations in the economic trends affecting industries such as film, concerts etc. PNE management has worked to develop longer term strategies to balance facility activities against these uncertainties and 2003 growth is due to very strong activity in both the concert and film industries in Vancouver.

In 2003 gross revenues for Facility Sales were $7.7 million, up from $5.8 million in 2002 and $7.0 million in 2001. The 2003 revenues were ahead of budget by 44.4%. Corresponding net revenues for Facility Sales were $3.7 million in 2003, up from $2.3 million in 2002 and $3.1 million in 2001.

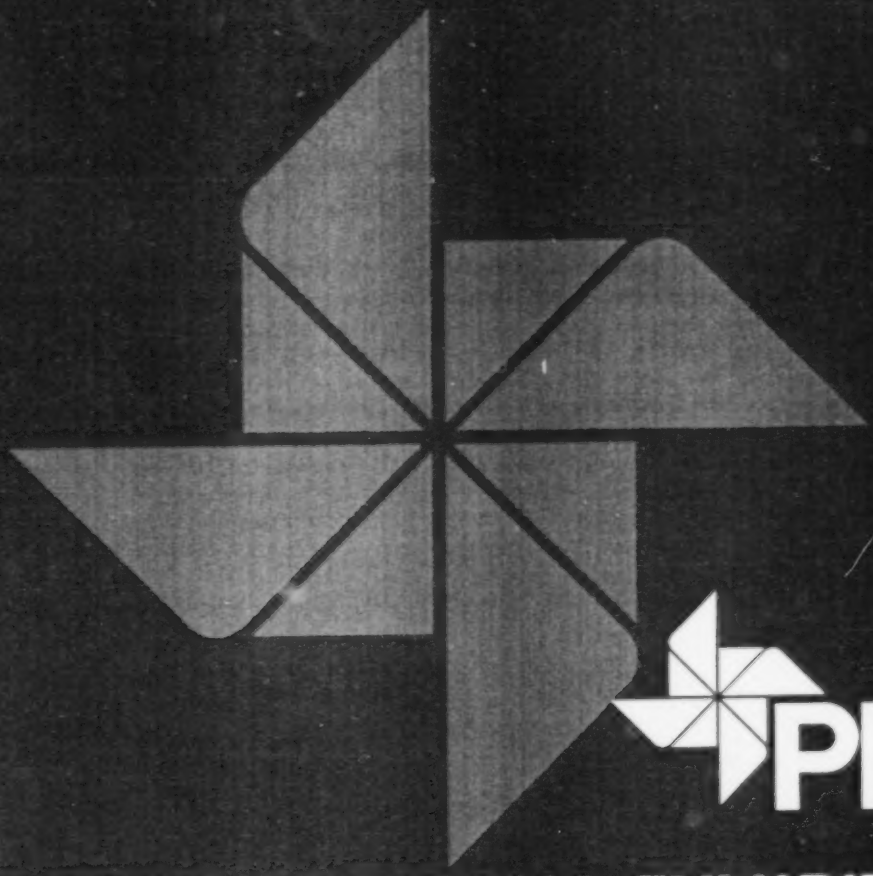
## B. REPORT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Pacific National Exhibition Incorporation Act requires that the PNE table an annual report containing information about the corporation's performance. The information in this 2003 annual report has been prepared and presented using guidelines recommended by the B.C. Crown Agencies Secretariat. PNE management prepares the following financial statements and related information and is responsible for their integrity. The statements were prepared using Canadian Generally Accepted Accounting Principles. The statements include amounts based on management's estimates and judgments. We believe that these statements represent fairly the PNE's current financial position.

Management is also responsible for the accuracy and completeness of the information presented in the PNE's annual reports. To fulfill this responsibility, management maintains financial and management control systems and practices that provide reasonable assurance the information is accurate and complete. PNE officials who have provided the information contained in the 2003 annual report have verified its completeness and accuracy. Our independent auditors, BDO Dunwoody LLP, have audited the financial statements using Canadian Generally Accepted Auditing Standards, to the extent necessary to form an independent opinion on the financial statements prepared by management.

**Michael McDaniel**
Acting President & CEO
June 24, 2004

**Jason Christopherson for Jeff Garrad**
Vice President, Finance & Administration
June 24, 2004



PNE

# PACIFIC NATIONAL EXHIBITION

## 2003 Financials

# AUDITORS' REPORT
## To the Directors of the Pacific National Exhibition

### Pacific National Exhibition
### Financial Statements for the year ending December 31, 2003

**To the Directors of the**
**Pacific National Exhibition**

We have audited the Statement of Financial Position of the Pacific National Exhibition as at December 31, 2003 and the Statement of Changes in Net Assets, Operations and Cash Flows for the year then ended. These financial statements are the responsibility of the Exhibition's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Exhibition as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Pacific National Exhibition Act, we report that, in our opinion, these principles have been applied on a consistent basis.

BDO Dunwoody LLP

Chartered Accountants

Vancouver, British Columbia
February 19, 2004

BDO

BDO Dunwoody LLP
Chartered Accountants

[illegible]

# STATEMENT OF FINANCIAL POSITION

Pacific National Exhibition
Statement of Financial Position
As at December 31, 2003

| | 2003 | 2002 |
|---|---|---|
| **Assets** | | |
| **Current** | | |
| Cash (Note 4) | $ 33,962 | $ 109,712 |
| Accounts Receivable | 1,779,003 | 757,499 |
| Inventories | 580,758 | 567,642 |
| Prepaid Expenses | 9,557 | 35,005 |
| | 2,403,280 | 1,469,858 |
| Property, plant & equipment (Note 2) | 5,701,617 | 5,656,419 |
| | **$ 8,104,897** | **$ 7,126,277** |
| **Liabilities and Net Assets** | | |
| **Current Liabilities** | | |
| Accounts Payable & accrued liabilities | $ 2,025,957 | $ 2,468,368 |
| Bank Loans (Note 3) | 3,132,489 | 2,460,000 |
| Deferred Revenue | 143,219 | 158,861 |
| Current portion of obligations under capital leases (Note 5) | 600,553 | 2,268,864 |
| | 5,902,218 | 7,356,093 |
| Deferred contributions (Note 4) | 353,781 | 390,387 |
| Obligations under capital leases (Note 5) | 1,848,918 | 2,449,471 |
| | 8,104,897 | 10,195,951 |
| **Net Assets** | | |
| Net assets invested in property, plant & equipment | 2,933,212 | 598,767 |
| Unrestricted net assets (deficiency) | -2,933,212 | -3,668,441 |
| | | -3,069,674 |
| | **$ 8,104,897** | **$ 7,126,277** |

Going concern assumption (Note 1)
Pension plan (Note 6)
Commitment (Note 7)
Outstanding Lawsuits (Note 8)
Transition of Ownership (Note 9)

Approved by the Board of Directors

Director

Director

# STATEMENT OF OPERATIONS

Pacific National Exhibition
Statement of Operations
For the year ended December 31, 2003

| | 2003 | 2002 |
|---|---|---|
| **Revenue** | | |
| Events | $36,688,899 | $32,659,256 |
| Province of British Columbia contributions (Note 9) | 3,363,312 | 10,500 |
| Amortization of deferred contributions | 36,540 | 319,823 |
| Other | 287,057 | 321,348 |
| Total Revenues | 40,375,808 | 33,310,927 |
| **Operating Expenses** | 33,535,043 | 30,552,835 |
| **Operating Earnings** | 6,840,765 | 2,758,092 |
| **Other Expenses** | | |
| Amortization | 1,114,768 | 1,562,595 |
| City of Vancouver (Note 7, Note 9) | 2,250,000 | 100,000 |
| Interest - Bank Loans | 109,335 | 180,247 |
| Interest - Capital Leases | 293,117 | 397,768 |
| Loss on disposal of property, plant, & equipment | 3,871 | 2,480 |
| Total other Expenses | 3,771,091 | 2,243,090 |
| Excess of revenue over expenses | $3,069,674 | $515,002 |
| **Net Assets** | | |
| Opening Net Assets | (3,069,674) | (3,584,676) |
| Excess of revenue over expenses | 3,069,674 | 515,002 |
| Closing Net Assets | - | (3,069,674) |

# STATEMENT OF CHANGES IN NET ASSETS

Pacific National Exhibition
Statement of Changes in Net Assets
For the year ended December 31, 2003

| | 2003 | | | 2002 |
|---|---|---|---|---|
| | Invested in property, plant, & equipment | Unrestricted | Total | Total |
| **Net assets - Beginning of year** | $598,767 | ($3,668,441) | ($3,069,674) | ($3,584,676) |
| Excess (deficiency) of revenue over expense for the year | (1,058,733) | 4,128,407 | 3,069,674 | 515,002 |
| Purchase of property, plant and equipment with unrestricted funds | 1,124,314 | (1,124,314) | 0 | 0 |
| Principal payments under capital leases | 2,268,864 | (2,268,864) | 0 | 0 |
| **Net assets - End of year** | **$2,933,212** | **($2,933,212)** | **($0)** | **($3,069,674)** |

# STATEMENT OF CASH FLOWS

Pacific National Exhibition
Statement of Cash Flows
For the year ended December 31, 2003

| | 2003 | 2002 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Excess of revenue over expenditures for the year | $ 3,069,674 | $ 515,002 |
| Items not affecting cash | | |
| Amortization | 1,114,768 | 1,562,595 |
| Amortization of deferred contributions | -36,540 | -319,823 |
| Loss on disposal of property, plant & equipment | - | 2,480 |
| | 4,147,902 | 1,760,254 |
| Net change in non-cash working capital items | -1,467,312 | 2,249,540 |
| | **2,680,591** | **4,009,794** |
| **Cash flows from financing activities** | | |
| Increase (decrease) in bank loans | 672,489 | -22,448,089 |
| Principal payments under capital leases | -2,268,864 | -1,243,253 |
| | **-1,596,375** | **-23,691,342** |
| **Cash flows from investing activities** | | |
| Sale of land | - | 20,575,950 |
| Sale/ Disposal of assets | - | 2,498 |
| Net purchase of property, plant & equipment | -1,159,966 | -845,053 |
| | **-1,159,966** | **19,733,395** |
| **Increase in cash** | **-75,750** | **51,847** |
| Cash - Beginning of year | 109,712 | 57,865 |
| **Cash - End of year** | **$ 33,962** | **$ 109,712** |

# SIGNIFICANT ACCOUNTING POLICIES

## Pacific National Exhibition

Significant Accounting Policies
December 31, 2003

### Inventories

Inventories consist of stores, plush toys, food and beverages, and are valued at the lower of cost or net realizable value. Cost is determined by the average cost method.

### Property, plant, & equipment

Property, plant, & equipment are recorded at cost less accumulated amortization.
The Exhibition changed its amortization policy in 2003. In prior years, the Exhibition amortized its assets to the end of its lease term to estimated salvage values at the end of its operating lease at Hastings Park.

In 2003 the Exhibition changed this policy to amortizing its assets on both a straight line, and declining balance basis to estimated salvage values over the useful lives of the assets, which range from 3 to 20 years. Management has estimated total salvage values to be $870,450 (2002 - $4,074,418).

### Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenditures for the reporting period of the statement of operations. Actual results could differ from those estimates.

### Deferred revenue

Advertising revenue for long-term contracts are recognized on a straight line basis over the term of the related contract. Deferred revenue also comprises deposits for events that are not recognized in revenue until the event is held.

### Revenue recognition – contributions

The Exhibition follows the deferral method of accounting for contributions. Contributions are recorded as revenue when received or receivable except when the donor specified that they are intended for use in a future period, in which cased they are deferred. Contributions are recognized when receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Contributions received to fund property, plant or equipment acquisitions and improvements are deferred until the specified expenditures are incurred. These contributions are recognized as revenue on the same basis as the related property, plant, and equipment, or improvements are amortized.

### Financial Instruments

The Exhibition's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, bank loans and obligations under capital leases. Unless otherwise noted, management is of the opinion that the Exhibition is not exposed to significant interest, currency, or credit risk arising from these financial instruments. Fair values of these financial instruments approximate their carrying values.

# NOTES TO FINANCIAL STATEMENTS

## Pacific National Exhibition

Notes to Financial Statements
December 31, 2003

### 1. Nature of Operations and Going Concern

The Pacific National Exhibition (the "Exhibition") was incorporated by the Province of British Columbia (the "Province") under the Pacific National Exhibition Incorporation Act of British Columbia for the purpose of furthering agricultural and other industries, and promoting community development. Effective January 1, 2004, ownership of the Exhibition will pass to the City of Vancouver (the "City"). The Provincial legislation was amended during 2003 to allow for this transfer. As a condition of the transfer, the Province agreed to provide a one-time grant to the Exhibition in sufficient magnitude to eliminate the Exhibition's net asset deficiency as at December 31, 2003. (Note 9)

The Exhibition is a not-for-profit entity and will be a subsidiary of the City and, accordingly is not subject to income taxes. The Exhibition operates on a site (Hastings Park) owned by the City. The City has planned a public consultation process in regard to the future use of Hastings Park. The outcome of this process could affect the future operations of the Exhibition.

### 2. Property, Plant & Equipment

| | | | 2003 | 2002 |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net | Net |
| Machinery, furniture and Equipment | $4,370,482 | $3,111,604 | $1,258,878 | $813,341 |
| Playland rides and equipment | 6,934,351 | 5,891,667 | 1,042,682 | 1,283,794 |
| | 11,304,833 | 9,003,271 | 2,301,560 | 2,097,135 |
| Playland rides under capital Lease | 7,240,385 | 3,840,330 | 3,400,055 | 3,559,284 |
| | $18,545,218 | $12,843,601 | $5,701,617 | $5,656,419 |

### 3. Bank Loans

Included in the bank loans is an amount of $280,000 denominated in US dollars (2002 – Nil). The interest due on this loan is payable in US dollars.

The Exhibition has an operating line credit facility with a Canadian chartered bank providing for maximum borrowing of $12 million in a combination of US and CDN dollars.

The operating line bears interest at the bank prime rate. A general security agreement covering all assets and undertakings of the Exhibition has been provided as security for the operating line. The Province has provided a guarantee for the $12 million operating line to December 31, 2003. Effective January 1, 2004, the City of Vancouver, as the new owner of the Exhibition, provided a guarantee of the Exhibition's operating line under substantially the same conditions as was previously in place.

The guarantee by the Province of the Exhibition's bank loans includes the amount of any letters of credit outstanding. Letters of credit outstanding totaled $45,000 as at December 31, 2003.

### 4. Deferred Contributions

In 2000, $1,437,000 was received from the Province to fund capital upgrades and improvements to the Exhibition's facilities. Of this amount $35,566 was spent in 2003 (2002 - $18,845, 2001 - $1,029,359, and 2000 - $318,319) on specified projects. The unspent balance of $34,825 is recorded as restricted cash, in a separate bank account and will be utilized in future years.

| | 2003 | 2002 |
|---|---|---|
| Balance - Beginning of year | $319,910 | $620,888 |
| Add: contributions used to acquire property, plant & equipment | 35,566 | 18,845 |
| Less: amounts amortized to revenue | (36,540) | (319,823) |
| | 318,936 | 319,910 |
| Add: Unspent Funds – Included in Cash | 34,825 | 70,477 |
| Balance end of year | $353,761 | $390,387 |

## 5. Obligations Under Capital Leases

The future minimum lease payments under capital leases are as follows:

| Year ending December 31 | |
|---|---|
| 2004 | $761,313 |
| 2005 | 1,950,087 |
| | 2,711,400 |
| Less: Amount representing interest | (261,929) |
| Principal Obligation | 2,449,471 |
| Less: Current Portion | (600,553) |
| | $1,848,918 |

Interest rates on capital leases average 7.27% annually.

The capital leases provide that at the end of the respective lease terms, the Exhibition is required to either extend the term of the lease, purchase the asset based on a pre-determined option price, or return the asset to the lessor and pay the lessor any shortfall between the fair value of the asset upon return and the pre-determined residual value.

The above lease schedule of lease payments assumes that the purchase options are exercised at the end of the lease term.

## 6. Pension Plan

The Exhibition and its employees contribute to the Municipal Pension Plan (the Plan), a jointly trusted pension plan. The board of trustees, representing plan members and employers, is responsible for overseeing the management of the Plan, including investment of the assets and administration of the Plan. The pension plan is a multi-employer contributory defined benefit pension plan with about 123,000 active contributors.

Every three years an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of the Plan funding. The most recent valuation as of December 31, 2000 indicated funding surplus of $436 million. The joint Trust Agreement specifies how surplus assets can be used. The actuary does not attribute portions of the surplus to individual employers.

### 6. Pension Plan - Continued

Contributions by the PNE to the Plan in fiscal 2003:

| | 2003 | 2002 |
|---|---|---|
| Employee | **$378,996** | $366,545 |
| Employer | **382,455** | 364,050 |
| Total | **$761,451** | $730,595 |

### 7. Commitment

During 2000, the City agreed to repair the roof of the Coliseum building on the understanding that the Exhibition would contribute to the costs associated with the work. The Exhibition and the City have agreed that, subject to formal documentation and subject to the use of the Coliseum during the period by the Vancouver Giants WHL hockey team, the Exhibition will contribute to these repairs. During the year ended December 31, 2003, the Exhibition contributed $50,000.

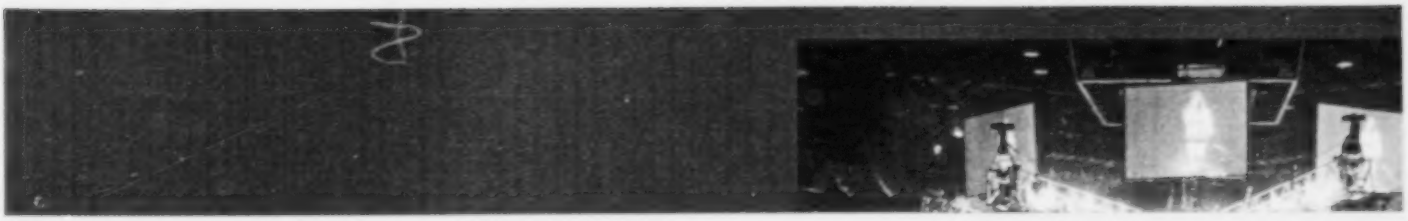
### 8. Outstanding Lawsuits

Various lawsuits and claims are pending by and against the PNE. It is the opinion of management that final determination of these claims will not materially affect the financial position of the PNE. Any ultimate settlements will be recorded in the year the settlements occur.

### 9. Transition of Ownership

Ownership of the Exhibition was transferred from the Province of British Columbia to the City of Vancouver effective January 1, 2004. As part of the transition agreement, the Province made a one-time grant to the Exhibition totaling $3,363,312 to extinguish the Exhibition's net asset deficiency, repay the costs incurred by the Exhibition related to the transition, and to provide a transition payment to the City of $2,200,000.

The net affect of the transition grant less related costs was $663,312. As a result, the Exhibition's excess of revenue over expenses from operations for the year would have been $2,406,362 without this one-time grant.



# V. CORPORATE GOVERNANCE

## BOARD OF DIRECTORS

The 2003 Board of Directors is as follows

Mr. Doug Callbeck, Chair
Mr. Steve Hollett, Director
Mr. Chris Nelson, Director

Effective January 1, 2004, the Pacific National Exhibition's ownership transfers from the Province of British Columbia to the City of Vancouver. As such, the current 2003 Board of Directors will transition an incoming new interim Board of Directors from the City of Vancouver who will begin governance on January 1, 2004.

## 2004 BOARD OF DIRECTORS

Incoming as of January 1, 2004

Mr. Brent MacGregor, Chair
Ms. Susan Mundick, Director
Ms. Estelle Lo, Director
Mr. Michael Zora, Director

Mr. Steve Boyce, Community Advisory Committee
Ms. Stephanie Williamson, Community Advisory Committee
Mr. Pietro Nardone, Community Advisory Committee
Mr. David Fairey, Community Advisory Committee
Ms. Angela Wu, Community Advisory Committee

## EXECUTIVE MANAGEMENT COMMITTEE

| | |
|---|---|
| Annette Antoniak | President and CEO – January 1 – September 2, 2003 |
| Michael McDaniel | Acting President and CEO – September 3 – December 31, 2003<br>Vice President, Human Resources – January 1 – September 2, 2003 |
| Michael MacSorely | Vice President, Operations |
| Jeff Garrad | Vice President, Finance and Administration |
| Peter Male | Vice President, Sales |
| Donna Whalley | Vice President, Marketing – September 2 – November 5, 2003 |
| Stacy Shields | Director, Human Resources – September 3 – December 31, 2003 |
| Kavita Patel | Executive Assistant /Corporate Secretary - Jan 1 – Sept 2, 2003 |
| Salome Valente | Executive Assistant – September 3 – December 31, 2003 |

## CORPORATE GOVERNANCE PRACTICES

The Pacific National Exhibition is a Provincial Crown Corporation and a non-profit registered charity. The company's business affairs are the responsibility of the Board of Directors, a provincially appointed body. The PNE's Board of Directors is committed to ensuring its corporate governance practices are open and effective, and that the Board is fully accountable.

The Board discharges responsibility of day-to-day operations by holding accountable management that reports to the Board. The staff is led by the President and CEO, who in turn selects and oversees the rest of the management team.

The Board encourages management, under the direction of the President and CEO, to make clear and appropriate executive decisions. The Pacific National Exhibition's Board of Directors assumes responsibility for the stewardship of the corporation.